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SUBJECT: ARGENTINA ECONOMIC AND FINANCIAL REVIEW, SEPTEMBER  
28-OCTOBER 1, 2009

1. (U) Provided below is Embassy Buenos Aires' Economic and Financial Review covering the period September 28-October 1, 2009. The unclassified email version of this report includes tables and charts tracking Argentine economic developments. Contact Econ OMS Megan Walton at WaltonM@state.gov to be included on the email distribution list. This document is sensitive but unclassified. It should not be disseminated outside of USG channels or in any public forum without the written concurrence of the originator. It should not be posted on the internet.

CONFUSION OVER REPORTS THE GOA STARTING TO FILE DEBT TRANSACTION PAPERWORK WITH THE SEC

2.(SBU) Over the last month, there have been many media reports indicating that the GoA is interested in engaging in a debt swap with the "holdouts" who did not participate in the 2005 debt exchange. On September 29, a Bloomberg report stated that an unnamed GoA official said that the GoA had begun filing paperwork with the U.S. Security and Exchange Commission for the reopening of the 2005 debt restructuring. On September 30, however, it was reported that Ministry of Economy officers denied that the GoA had done so. Other reports suggested that a final agreement with holdouts was possible in 2010. Post expects press and private sector speculation to continue in the coming weeks as GoA and holdout discussions continue.

INDUSTRIAL PRODUCTION DECLINED 1.4% Y-O-Y IN AUGUST

3.(SBU) INDEC surprised most analysts September 29, announcing that industrial production (the EMI) declined 1.4% y-o-y in August, compared to the BCRA consensus survey's decrease of 0.9%. Note that the BCRA survey represents the private sector predictions of INDEC reports, not the "true" estimates provided to clients, which in fact were in line with INDEC's announcement. On a seasonally adjusted basis the EMI advanced 0.6% m-o-m from July. Within the index, the hardest hit sectors were: metal base industries (down 20% y-o-y), automobile (down 16% y-o-y), oil (down 11% y-o-y), and textiles (down 3% y-o-y). The best performing sectors were: chemicals (up 9% y-o-y), rubber and plastics (up 9% y-o-y), paper and cardboard (up 6% y-o-y), and food (up 5% y-o-y). Most analysts expect the industrial sector to show signs of a mild rebound at the margins in the coming months as the inventory cycle stabilizes and growth begins to pick up in some of Argentina's main trading partners, particularly Brazil.

4.(SBU) The industry-wide capacity utilization index reached 75% in August compared to 76% in August last year, recovering from its annual low of 67% in January, 2009. The sectors showing highest capacity utilization were oil refining, printing and cardboard, chemicals, and textiles. The sectors with the lowest capacity utilization were auto production, and the metal and tobacco industries.

AUGUST MONTHLY ECONOMIC ACTIVITY INDEX DOWN 1.5% Y-O-Y, A LEVEL WEAKER THAN EXPECTED BY PRIVATE ANALYSTS AND AN ADDITIONAL POSSIBLE INDICATION OF A BID BY INDEC TO REGAIN CREDIBILITY.

5.(SBU) The National Statistics Agency (INDEC) announced September 25 that EMAE (the Monthly Economic activity index - a proxy for real GDP growth) decreased 1.5% y-o-y in July, a much weaker showing than

the 0.4% drop private forecasters expected INDEC to announce. Also, INDEC revised down the May and June y-o-y figures to negative 1.2% and negative 1.5%, respectively, from the earlier releases of negative 0.3% and negative 0.4%, respectively. With this announcement, INDEC acknowledged the third consecutive monthly decrease and indicated to some analysts that it is gradually attempting to close the gap between official and private estimates. [Note: the last INDEC release of the August CPI also surprised as it announced a much higher increase than expected.]

6.(SBU) In the first eight months of the year, EMAE increased a cumulative 0.2% y-o-y, which contradicts leading micro indicators and sector-level data that suggest a severe y-o-y contraction of activity to date. Most independent private sector estimates and surveys show that the economy has clearly been contracting since the fourth quarter of 2008 and estimate that GDP will contract by 2-3% in 2009.

#### CURRENT ACCOUNT SURPLUS IN THE SECOND QUARTER DUE TO TRADE PERFORMANCE

7.(SBU) INDEC reported that the current account surplus was a large \$ 0.5 billion in IIQ 2009. This reflects a strong trade surplus of \$ 6.7 billion in the same period. In IIQ 2009, the dollar value of both exports and imports fell 11.9% and 40.3% y-o-y, respectively. Meanwhile, the service trade balance posted a small \$ 68 million deficit. The capital account posted a \$ 4.7 billion deficit in IIQ 2009, which was substantially higher than the \$ 2.4 billion deficit in IIQ 2008. There have been sizable private sector outflows in the last five quarters; however, these appear to have eased in IIQ 2009, allowing the central bank to be a net buyer of dollars in the FX spot market, and to increase reserves. The August trade data showed a sharp decline in both exports and imports. Exports fell 40% y-o-y in dollar terms in August because of declines in both prices and volume (down 20% and 25%, respectively). Note that the sharp drop

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in exports partly reflects a high base of comparison (exports soared in July and August 2008, after the farmers lifted their strike). In August, fuel exports fell 65% y-o-y in dollar terms, while non-fuel commodities exports were down 52% y-o-y. Agribusiness exports were down 35% y-o-y in dollar terms (note - all percentages to follow in this paragraph are in dollar terms), and exports of industrial manufactures fell 27% y-o-y. On the other hand, imports fell 37% y-o-y in August, reflecting both weaker domestic demand and lower prices (on average, import prices were down 16% y-o-y). All import categories fell on a year-on-year basis in dollar terms in August. Intermediate goods imports were down 46% y-o-y, while capital goods imports fell 36% y-o-y. Imports of consumption goods also fell 28% in August. The trade surplus in August was \$1.16 billion. The 12-month rolling trade surplus was \$16.4 billion in August, down from \$ 17.5 billion in July.

#### THE GOA APPOINTS NEW MINISTER OF AGRICULTURE, FISHING AND LIVESTOCK

8.(SBU) On October 1, Julian Dominguez was sworn in as Ministry of Agriculture, Fishing and Livestock. Until now, these issues were handled by a Secretary in the Ministry of Production. This upgrade from Secretary to Minister level has been long-sought by the Ag sector and it comes after more than a year of tense relations and conflict between the GoA and the Ag sector, mainly over export trade taxes. Argentina last had a ministry of Agriculture in 1981, making it one of the only countries in Latin America to lack an agricultural ministry, despite the country's status as one of the world's preeminent agricultural producers.

9.(SBU) Since 2007, Dominguez has been a Deputy in the Buenos Aires provincial legislature. Previously, he was mayor of Chacabuco (a city of 45,000 residents located in northern Buenos Aires province) from 1995 to 1999. After that, he was the Minister of Public Works in the province of Buenos Aires (1999- 2002), presidential Cabinet secretary (2003), and Military Affairs Secretary (2003).

#### BAHIA BLANCA PORT STRIKE

10.(SBU) A strike - and a lockout - temporarily shut down port operations at Bahia Blanca, in the province of Buenos Aires. The actions by unions and port owners were both in protest of new fees proposed by the Buenos Aires provincial government on loading and unloading of cargo in local ports. Protestors argued that the new

fees would make the port uncompetitive, forcing some cargo operations elsewhere. The Bahia Blanca port, which handles primarily bulk cargo such as crude oil, petroleum products, and agricultural goods, was shut down over the weekend of September 25-27 before allowing one ship (a tanker with crude oil, belonging to Esso) to unload on September 28. By September 29, the parties had agreed to suspend their protests for 10 days pending discussions with the provincial government, and normal operations had resumed. However, a potential strike by the Argentine union of ship captains seeking a raise (unrelated to the other strikes) remains possible, and could prevent or slow down ship movements regardless of the talks over port fees.

MARTINEZ